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S E C R E T SECTION 01 OF 04 BEIJING 001728

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SUBJECT: SCENESETTER FOR THE DEPUTY SECRETARY'S MAY 11-12
VISIT TO BEIJING

Classified By: Ambassador Clark T. Randt, Jr.
Reasons 1.4 (b) and (d).

SUMMARY

1. (C) China's leaders are preoccupied with managing the domestic dimensions of and international fallout from the Tibet crisis, determining how to deal with the new leadership in Taiwan and ensuring that nothing mars a successful Olympic Games. Despite seemingly strong domestic popular approval of the Government's crackdown in Tibet, international criticism in the run-up to the Olympics led to China's recent decision to resume meeting with the Dalai Lama's representatives. The Chinese people have full-blown Olympics Fever, but the disruption of the Torch Run in several European cities, protests in cities worldwide and hints that some leaders might cancel participation in the Olympics Opening Ceremony shattered any illusions the Government may have had about its ability to stage-manage the Olympics. The Torch Run protests abroad also led to a nationalistic public reaction that China's leaders initially encouraged but now seek to rein in. Taiwan is less likely to inflame nationalist emotion in the near term, though China's leaders seem unsure how to manage the opportunities presented by the newly elected government in Taiwan. Under sustained Western diplomatic pressure on Iran, Sudan, Burma and other issues, and under the Olympic spotlight, China has grudgingly taken some positive moves, but we can expect China to continue to block efforts to put real teeth in sanctions that could affect China's economic and energy interests.

2. (S) The Six-Party Talks remain a bright spot of U.S.-Chinese cooperation. China continues to play a helpful role, but could do more to press the DPRK to conclude a deal swiftly. China has said it expects the Six-Party Talks to form the basis of any future Northeast Asia Peace and Security Mechanism (NEAPSM). Chinese experts in the past have described the NEAPSM as a follow-on to the Six-Party Talks. In the meantime, the Chinese remain interested in hearing others' ideas for the NEAPSM. China has agreed to host our Human Rights Dialogue (HRD) on May 26 but has only scheduled half a day for the Dialogue and is indicating that we should not expect any "results." The Chinese have also refused A/S Kramer's request to visit Tibet. Accustomed to consistent double-digit economic growth, China faces mounting difficulties linked to skyrocketing energy prices and problems in the economies of major trade partners. China is largely unaffected by the global food crisis, though winter storms and an outbreak of disease in pigs have contributed to food price inflation in recent months. The China Mission needs Chinese agreement on a new Conditions of Construction Agreement (COCA II) in order to start work on the new Guangzhou Consulate Complex. End Summary.

Tibet: Pragmatic Response to International Pressure

3. (C) China's leaders appear encouraged by how the Tibet

crisis has played domestically, with support for the Government reportedly at high levels. Credible reports of heavy-handed repression in Tibetan areas continue, but the Chinese Government response to the unrest largely avoided large-scale deployment of the PLA and visible violence against protestors. Moreover, the Chinese Government appeared to successfully manage domestic public opinion, and events in Tibet seem to have strengthened, not weakened, regime legitimacy among most Han Chinese. The Government was particularly successful in capitalizing on a few high-profile reporting errors to paint Western media as biased against the Chinese while at the same time closing Tibet tightly to foreign reporters and diplomats. Any reports critical of the response to the Tibet crisis are now cast by the Chinese people as anti-China, to the point where foreign reporters have received death threats from Chinese.

14. (C) However, Beijing did seem unprepared for the intensity of the foreign reaction over violence in Tibet. With international protests over Tibet refusing to die down, especially in Japan where President Hu is planning a high-profile visit beginning May 6, Beijing made the pragmatic decision to accede to international demands that China reopen contact with the Dalai Lama. Such contact, which occurred May 3 in Shenzhen, bears little real cost for Beijing (and has little real chance to improve the human rights situation in Tibet) but it helps deflate Western criticism. We continue to press China on the other elements of a responsible Tibet policy: restraint toward Tibetans who disagree with Government policies, humane treatment of detainees, unfettered access to Tibet for diplomats and journalists, and addressing the underlying concerns of

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Tibetans with regard to protecting their culture, religion and way of life.

Olympics: China Rattled?

15. (C) Pro-Tibet and other protestors' disruption of the Olympic Torch Run in numerous cities abroad angered Beijing's leaders, as did calls for Olympic boycotts. French President Sarkozy's statement that unless Beijing addresses international concerns over Tibet satisfactorily he might skip the Opening Ceremony particularly miffed the Chinese. Linkage of Tibet and the Olympics and the Torch Run complications made it clear to Chinese leaders that the Games may not be the smooth international celebration of China's emergence as a global power that they intended. President Bush's clear statement that he will attend the Olympics and the lack of major incidents at the Torch Run in San Francisco earned us goodwill and gratitude in Beijing and has given us a degree of leverage.

Nationalism: Putting the Genie Back in the Bottle

16. (C) Pro-Tibet protests at the Olympics Torch Run sparked zealous Chinese nationalistic reactions inside and outside of China. In China, the reactions took the form of protests against foreign businesses and institutions and calls for boycotts of foreign-owned businesses. Outside of China, overseas Chinese groups staged counter-protests that got out of hand in several cases. In one ugly example, at the Seoul leg of the Olympic Torch Run, thousands of Chinese students threw projectiles at a group of a few hundred protestors that included children and elderly. After initially fanning the flames, the Chinese Government has taken action in recent days to rein in this nationalist fervor, limiting Internet discussion of boycotts and protests and exhorting the Chinese people to redirect their emotions into study and other productive endeavors. China's leaders have seen examples in the past of nationalist feeling in China mutating into anti-regime sentiment.

17. (C) For now, Taiwan is less likely to provoke nationalistic reactions in China. Now that Chen Shui-bian has been soundly defeated, many observers expect quick progress on some aspects of cross-Straits ties, with concrete steps taken soon after President-elect Ma Ying-jeou's inauguration. Cross-Straits contacts have already begun. Taiwan Vice President-elect Vincent Siew and President Hu met April 12 in Bo'ao and endorsed moving forward on cross-Straits charter flights, opening Taiwan to Mainland Chinese tourism, currency exchanges, and the resumption of official dialogue by early July. Taiwan Straits Exchange Foundation (Taiwan's designated Mainland negotiator) Chairman-designate P.K. Chiang visited multiple cities in China in late April. However, Beijing's leaders seem unsure what Ma Ying-jeou's victory may mean in the longer term, and observers here worry about the limited potential for real progress on larger issues like Taiwan's identity and its international space. Reflecting long-held positions, Beijing has cautioned us against selling new arms to Taiwan, inviting Ma to the United States or sending a high-level delegation to Ma's inauguration. We have reminded Beijing of our one China policy and Taiwan Relations Act obligations and urge China's leaders to stay focused on the historic opportunity to improve cross-Straits relations through peaceful dialogue and to consider confidence-building measures such as withdrawing missiles and aircraft currently deployed opposite Taiwan.

Pressuring China to be a Global Stakeholder

18. (C) In the past, China has been quick to contrast its non-interventionist "harmonious world" policy with U.S. "unilateralism." It has blocked vigorous international action on Burma, negotiated doggedly against tough sanctions on Iran and consistently urged patience rather than action in Sudan. More recently, concerted international pressure has resulted in China taking steps, albeit reluctantly, in line with U.S. goals on these issues. China brokered a deal that led to the establishment of the hybrid force in Sudan, eventually agreed to a third UNSC sanctions resolution on Iran's nuclear activities, hosted a meeting of the P5-plus-1 on Iran in Shanghai and is now negotiating a second UNSC President Statement on Burma. We note that in all of these cases, China's cooperation has only come after considerable resistance, and their "red lines" on most issues fall far short of U.S. bottom lines. We are therefore pessimistic

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about China's willingness to agree to sanctions on energy trade with Iran and Sudan or to meaningful curbs on China's commercial activities in Burma.

Six-Party Talks: China Could Do More

19. (S) The Six-Party process remains the best example of U.S.-Chinese cooperation on an issue of joint concern. China's hosting of the Six-Party Talks continues to pay handsome dividends for China's prestige in the region and its relations with the United States. Although China sees itself largely as a mediator and chair of the talks, its clear national interest in the denuclearization of the Korean Peninsula has motivated Beijing to press North Korea to be cooperative. However, Beijing can do more to urge Pyongyang to conclude rapidly Phase II of the denuclearization process and begin discussion of Phase III, to include verification of North Korea's declaration and other Six-Party Talks priorities. China's "traditional friendly relations" with North Korea, while strained following North Korea's 2006 nuclear test, continue to provide opportunities for Beijing to convince Pyongyang that now is the time to conclude a deal. There has been quite a bit of Beijing-Pyongyang contact lately: Kim Jong-Il visited China's Embassy in

Pyongyang in March, and North Korea's Foreign Minister Pak Ui Chun met senior Chinese officials in Beijing in April, including Vice President Xi Jinping, State Councilor Dai Bingguo and FM Yang Jiechi.

NEAPSM: Chinese Views Developing

¶10. (S) China's vision of a future Northeast Asia Peace and Security Mechanism (NEAPSM) continues to develop, although it sees the Six-Party Talks as a potential base from which to build a future security structure. Chinese officials have said that the NEAPSM should be discussed within the Six-Party Talks framework and that the founding members of this new mechanism should be the current members of the Six-Party Talks. The parties should be equals, acting in consensus and consulting each another as partners of equal standing. China believes agreement on the establishment of a NEAPSM could be an outcome of a future Six-Party Ministerial meeting. Vice Foreign Minister Wu Dawei told then-EAP PDAS Kathy Stephens in July 2007 that North Korea will want to resolve the issue of normalization of relations with the United States before entertaining the NEAPSM idea seriously.

¶11. (S) While there is no agreement among Chinese experts on what a future NEAPSM will look like, many see it as a natural outgrowth of the Six-Party Talks that will start with the Six Parties and may later expand to include interested countries, such as Mongolia. The Chinese have an intrinsic preference for "weak" regional architecture institutions that operate on the basis of consensus and enshrine the principles of inviolable sovereignty and non-interference in internal affairs. Beijing has also made it clear that it will not permit NEAPSM to touch upon the Taiwan issue. We expect the Chinese to stick firmly to these principles in any discussion of a future Northeast Asian regional grouping. The Chinese have asked for our views on how NEAPSM would impact our alliance arrangements and forward military deployments in Northeast Asia.

Human Rights Dialogue

¶12. (C) The U.S.-China Human Rights Dialogue has been suspended since 2003. During the Secretary's February visit, she and FM Yang announced that China and the United States agreed to restart the Dialogue, and on May 5 an MFA official agreed to May 26 and 27 as dates for the next HRD round and related meetings. The news was not all good: China offered a Director General-level interlocutor instead of the Assistant Foreign Minister we requested and also rejected our request to have A/S Kramer visit Tibet May 23-24. The MFA official said the MFA is willing to explore "fallback" alternatives to a trip to Tibet. A/S Kramer has said that, if he cannot go to Tibet, he wants to travel to Xinjiang.

Economic Issues: Mounting Difficulties

¶13. (SBU) The Chinese economy is facing many difficulties after years of double-digit growth, including slowing exports, inflation at an 11-year high, rising labor costs, a widening urban-rural income gap, environmental challenges and galloping energy consumption. Premier Wen Jiabao said publicly that 2008 will be "a most difficult year" for the economy due to "uncertainties in international

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circumstances." China's trade partners are facing high energy prices and slowing economies, though China has little direct exposure to the subprime crisis. At the same time, Chinese officials, scholars and journalists are debating whether China has become too open to foreign investment. To deal with its challenges, China has in some cases reverted to the blunt instruments of a state-directed economy, including price controls on food and energy and measures to restrict

foreign investment in key sectors. The Strategic Economic Dialogue (SED) is the key bilateral mechanism to address the issues that will confront our economic relationship over the coming decades; the next round will be in the United States in mid-June. Recent SED deliverables include working toward a ten-year plan on energy and environment cooperation and advancing our bilateral investment treaty (BIT) discussions. China continues to pose IPR protection challenges to U.S. rights holders and was recently named a "priority watch list" country (again) by USTR.

Food Crisis: Manageable in China

¶14. (SBU) China is not a significant importer or exporter of grains, and the country's recent food price/supply shocks are largely domestic in origin. China is, however, the world's top importer of oilseeds and edible oils (e.g., soybeans), and thus affects those markets elsewhere. China's growing imports of gas and oil contribute to rising fertilizer prices globally and boost the economic attractiveness of biofuel crops and production in other countries. Food inflation rose 21.0 percent in China in the first quarter of 2008, while overall inflation was 8.0 percent. Major factors in food inflation are the domestic pork supply and pig disease problems, storms in January and February, and the costly imports of edible oils. Higher food prices have hurt low-income consumers who, in general, spend a higher proportion of their income on food. There is no sign to date that food inflation is leading to widespread or sustained social instability.

COCA II: Need Chinese Agreement to Begin Construction

¶15. (SBU) The lack of an applicable Conditions of Construction Agreement (COCA) threatens the China Mission's ambitious building program. The original COCA permitted reciprocal construction of new Embassy Complexes in Beijing and Washington. We now require a new agreement, COCA II, to cover new consulate construction, refurbishment and major repairs. We are ready to begin construction of our new Guangzhou Consulate Complex, and the Chinese want to conduct major consular facilities rehabilitation in New York and San Francisco. A negotiating team from OBO will be in Beijing toward the end of this month. Any significant delay will threaten the China Mission's ambitious consular facilities programs.

RANDT